



# Your Credit Score

Office of Attorney General, Consumer Protection Division, 4205 State Street, Bismarck, ND 58505. Tel: (701) 328-3404, toll free: (800) 472-2600.  
Website: [www.ag.nd.gov](http://www.ag.nd.gov)

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Have you ever wondered how a creditor decides whether to grant you credit? For years, creditors have been using credit scoring systems to determine if you'd be a good risk for credit cards and auto loans. Creditors use credit scoring to evaluate your ability to repay home mortgage loans. Insurance companies even use credit scoring to determine your insurance premium rates. Here's how credit scoring works in helping decide who gets credit — and why.

## What is credit scoring?

Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your credit application and your credit report. Using a statistical program, creditors compare this information to the credit performance of consumers with similar profiles nationwide.

A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points — the credit score — helps predict how “creditworthy” you are, that is, how likely it is that you will repay a loan and make the payments when due. High credit scores qualify for the best interest rates.

## What can I do to improve my score?

Credit scoring models are complex and may vary among creditors and for different types of credit, but generally rate the following information from your credit report:

- ***Have you paid your bills on time?*** If you have paid bills late, had an account referred to collections, or declared bankruptcy, if that history is reflected on your credit report as negative information, lowering your score.
- ***What is your outstanding debt?*** If the amount you owe is close to your credit limit, that is likely to have a negative effect on your score.
- ***How long is your credit history?*** An insufficient credit history may have an effect on your score, but that can be offset by other factors, such as timely payments and low balances.
- ***Have you applied for new credit recently?*** If you have applied for too many new accounts recently that may negatively affect your score. However, inquiries by creditors who are monitoring your account or looking at credit reports to make “prescreened” credit offers are not counted.
- ***How many and what types of credit accounts do you have?*** Although it is generally good to have established credit accounts, too many credit card accounts may have a negative effect on your score. In addition, loans from finance companies may negatively affect your credit score.

Other factors may affect your final credit score, including your job/occupation, length of employment, or whether you own a home. To improve your credit score, concentrate on paying your bills on time, paying down outstanding balances, and not taking on new debt. It's likely to take some time to improve your score significantly.

**Why is credit scoring used?**

Credit scoring is based on real data and statistics, so it usually is more reliable than subjective or judgmental methods. It treats all applicants objectively. Judgmental methods typically rely on criteria that are not systematically tested and can vary when applied by different individuals. Under the Equal Credit Opportunity Act (ECOA), a credit scoring system may not use certain characteristics - like race, sex, marital status, national origin, or religion - as factors.

**What Type of Information is in My Credit Report?**

Consumer reporting companies collect and sell four basic types of information:

- Identification and employment information - such as your name, date of birth, spouse name, employer, current and previous address, home ownership.
- Payment history, showing how much credit has been extended and whether you've paid on time. Related events, such as the referral of an overdue account to a collection agency, also may be noted.
- Inquiries by creditors who have asked for your credit history within the past year, and a record of individuals or businesses that have asked for your credit history for employment purposes for the past two years.
- Public record information, such as bankruptcies, foreclosures, or tax liens.

You have the right to know what's in your report, but you have to ask for the information. The consumer reporting company must tell you everything in your report, and give you a list of everyone who has requested your report within the past year - or the past two years if the requests were related to employment.

**What happens if I am denied credit ?**

If you are denied credit, the creditor is required to give you a notice either stating the specific reasons your application was rejected or that you have the right to learn the reasons if you ask within 60 days. Indefinite and vague reasons for denial - such as not meeting a minimum standard - are illegal, so ask the creditor to be specific.

Sometimes you can be denied credit because of information from a credit report. If so, the Fair Credit Reporting Act (FCRA) requires the creditor to give you the name, address and phone number of the consumer reporting company that supplied the information. You should contact that company to find out what your report said. This information is free if you request it within 60 days of being turned down for credit. This free report does not count as your annual free credit report from that consumer reporting company. The consumer reporting company can tell you what's in your report, but only the creditor can tell you why your application was denied.

**General Tips**

Because your credit report is an important part of many credit scoring systems, it is very important to make sure it's accurate before you submit a credit application. An amendment to the federal Fair Credit Reporting Act (FCRA) requires each of the major nationwide consumer reporting companies to provide you with a free copy of your credit reports, at your request, once every 12 months.

To order your free annual report from one or all national consumer reporting companies, visit [www.annualcreditreport.com](http://www.annualcreditreport.com), or call toll-free 877-322-8228. If you request a credit report directly from a consumer reporting company there is a fee.

Additional information on the consumer rights under the Fair Credit Reporting Act is available from the Consumer Protection division at [www.ag.nd.gov](http://www.ag.nd.gov).